

STATE OF INDIANA



INDIANA UTILITY REGULATORY COMMISSION
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August 1, 2003

Dear Telecommunications Carrier:

It has come to the attention of the IURC that many telecommunications carriers have decided to pass through to their customers, via a separate line item on their bills, the Indiana Utility Receipts Tax. This tax on utility companies was created and passed into law as a part of House Bill 1001 in the 2002 Indiana General Assembly and became effective January 1, 2003.

Indiana Code Section 6-2.3-2-1 states that the Utility Receipts Tax is an "income tax". Other income taxes are treated by utilities as "costs of doing business" and are included in base rates rather than as a separate line item on customers' bills. An example of that treatment is the former Indiana Gross Receipts Tax of 1.2%, which prior to January 1, 2003 was included as a cost of doing business in the base rates of Indiana utilities and was not listed as a separate line item on customer bills. The Indiana Gross Receipts Tax was eliminated on the same date that the Indiana Utility Receipts Tax of 1.4% became effective.

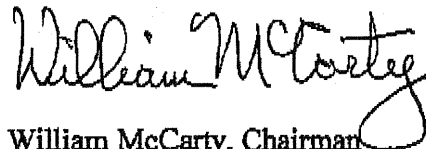
By including this tax as a separate line item of the bill, customers may mistakenly believe that the State has assessed a tax on the customer, rather than on the utility. The utilities that are including this as a line item on customer bills do not appear to have reduced their basic service rate for the elimination of the Indiana Gross Receipts Tax, nor are they charging only the increase over the previous gross receipts tax to their customers. This may result in the utilities over- or double-recovering taxes because the tax is already included in base rates, and is also being assessed as a separate line item on customer bills. We are also concerned that revenues collected through this Utility Receipts Tax line item may not be included in the utility's reported gross revenues, effectively exempting those revenues from taxation and inclusion in the calculation of the Public Utility Fee.

If companies persist in placing taxes that the Legislature levied on the utility on customer's bills as a separate line item, the Commission expects that companies will impose such line items in a consistent manner that is compliant with Indiana law and Commission regulation. For example, the Commission would expect to see similar line items crediting customers for decreases in the utility's expenses arising from the

elimination of taxes which were also part of House Bill 1001 in the 2002 General Assembly as well as any other tax or fee decreases that occur going forward.

Therefore, the Commission is instructing telephone utilities to discontinue the practice of including a separate line item on bills that passes through the Indiana Utility Receipts Tax to customers. Telephone utilities that continue this practice will be subject to further investigation by the Commission.

Sincerely,

A handwritten signature in black ink, appearing to read "William McCarty". The signature is fluid and cursive, with the first name "William" and last name "McCarty" clearly distinguishable.

William McCarty, Chairman
Indiana Utility Regulatory Commission